

Annual Internal Audit Report & Opinion

2014 – 15

Pension Services



Southern Internal Audit Partnership

Assurance through excellence
and innovation

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1. Role of Internal Audit

The Pension Services Section within Corporate Services is responsible for the day to day running of the Local Government Pension Scheme in Hampshire.

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards 2013 [the Standards].

The role of internal audit is best summarised through its definition within the Standards, as an:

'Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

The County Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the County Council that these arrangements are in place and operating effectively.

The County Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council (Pension Services) on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the Pension Services framework of governance, risk management and control

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of Pension Services audit need that has been covered within the period

Audit Opinion

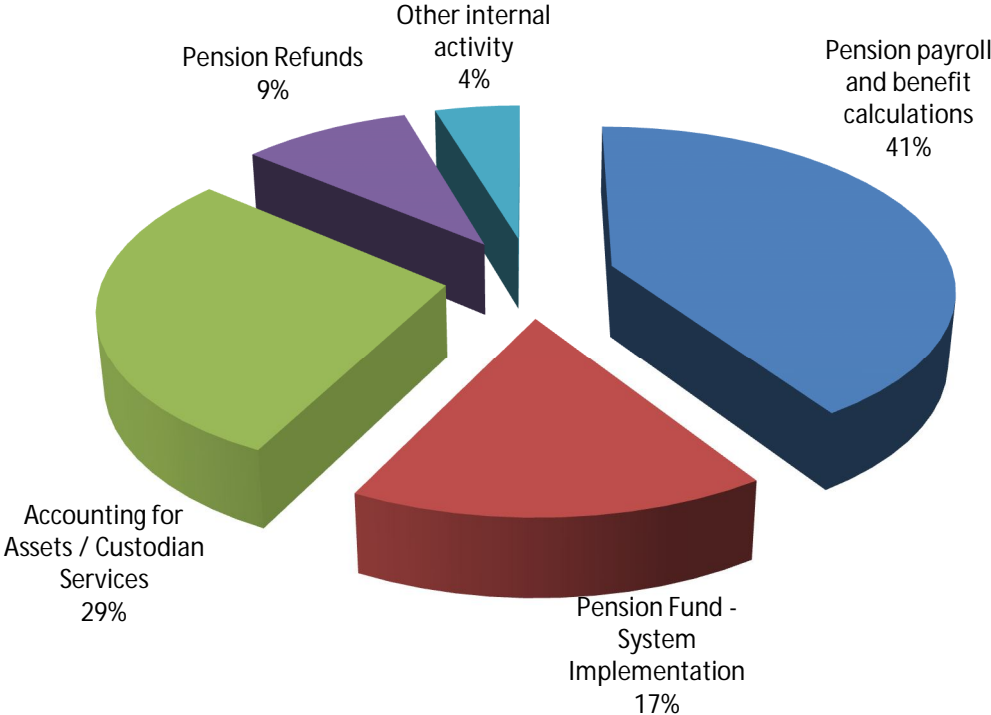
I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Hampshire County Council (Pension Services) internal control environment.

In my opinion, based on internal audit work completed 'Substantial Assurance' can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Pension Services activities and to support the preparation of the Annual Governance Statement.



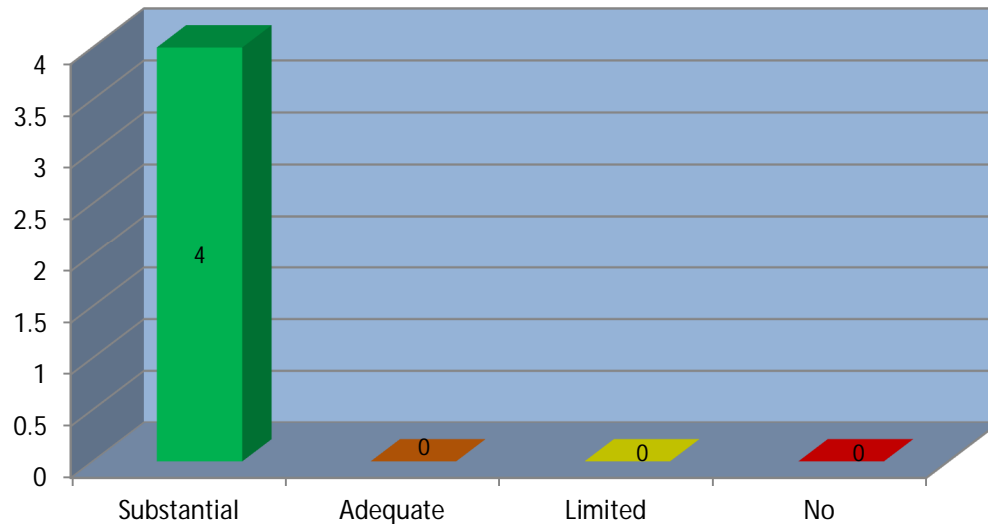
Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2014-15 Internal audit plan was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the Pension Service.

The plan has remained fluid throughout the year to maintain an effective focus.

The Southern Internal Audit Partnership delivered 105 days across 4 review areas over the course of the year ending 31 March 2015

The revised 2014-15 internal audit plan has been delivered in full. The opinion assigned to each internal audit review on issue is defined as follows:



Substantial - A sound framework in place that is operating effectively;

Adequate - Basically a sound framework in place with possible opportunities to improve controls or some immaterial evidence of inconsistent application;

Limited - Critical weakness (es) identified within the framework and / or significant evidence of inconsistent application; or

No - Fundamental weaknesses have been identified or the framework is ineffective or absent.

5. Significant Issues Arising

There were no significant issues arising from internal audit work carried out in accordance with the 2014/15 audit plan.

6. Anti Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image. Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption.

The County Council continues to conform to the requirements of the National Fraud Initiative (NFI). The NFI matches data from 1,300 public sector and 77 private sector organisations, including audit bodies in Scotland, Wales and Northern Ireland, government departments and other agencies. It flags up inconsistencies in the information analysed that indicate a fraud, an error or an overpayment may have taken place, signaling the need for review and potential investigation. The Cabinet Office assumed responsibility for the National Fraud Initiative following the demise of the Audit Commission in March 2015.

As part of the 2014/15 NFI exercise the County Council submitted required data sets in October 2014 receiving feedback on potential matches in February / March 2015 (as detailed below). Work will be carried out during 2015-16 to review identified 'recommended matches' for fraudulent activity.

Dataset	Recommended Matches
Pensions	425

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against ‘the Standards’ and the Local Government Application Note (LGAN) for conformance.

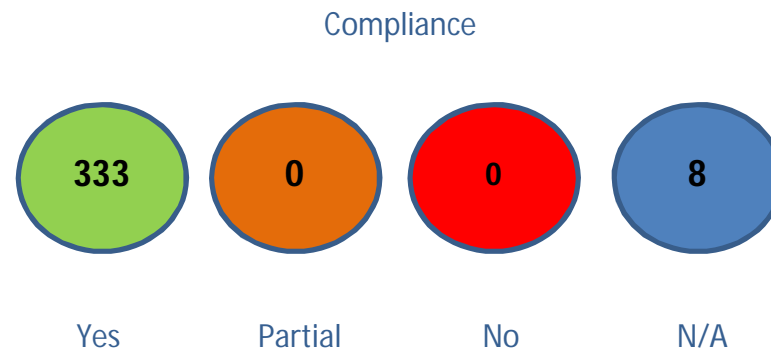
The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

The Standards stipulate that ‘internal assessments’ should be undertaken as a self-assessment or by other persons within the organisation with sufficient knowledge of internal audit processes.

During 2014 – 15 The Head of the Southern Internal Audit Partnership undertook a self-assessment against the Standards and the LGAN.

An external assessment is to be undertaken by the Institute of Internal Auditors (IIA) in September 2015. In accordance with the Internal Audit Charter, outcomes of the external assessment will be reported to the Audit Committee (December 2015).



8. Disclosure of Non-Conformance

'It is my opinion that in all material respects the Southern Internal Audit Partnership conforms with the, Definition of Internal Auditing; the Code of Ethics; and the Standards'

Whilst the Standards only require non-conformance to be disclosed when it impacts the overall scope or operation of the internal audit activity, the additional requirements for the public sector state *'that all instances of non-conformance and progress against improvement plans must be reported in the annual report'*. The QAIP Action Plan is provided at Appendix 1.





9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2014-15 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures; and
- Review and quality control of all internal audit work by professional qualified senior staff members.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	2013-14		2014-15
	Actual (%)		Actual (%)
Revised plan delivered (including 2012/13 c/f)	100		100
Positive customer responses to quality appraisal questionnaire	100		100
Compliant with the Public Sector Internal Audit Standards	Yes		Yes

11. Acknowledgement

I would like to take this opportunity to thank all those staff within Pension Services with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2015

Appendix 1 – Quality Assessment & Improvement Action Plan

Compliance against the Public Sector Internal Audit Standards / Local Government Application Note
Public Sector Internal Auditing Standards
Action Plan – Not Applicable

Standard	Compliance	Comment	Action	Responsible Officer	Implementation Date
3.2 - Independence and Objectivity					
Does the board: e) approve decisions relating to the appointment and removal of the CAE	N/A	Such actions are not constitutionally permissible to be undertaken by the board (Local Authorities (Standing Orders) (England) Regulations 2001)	To continue to follow existing Council Standing Orders and procedures in the appointment and dismissal of the Chief Internal Auditor	-	-
Have any instances been discovered where an internal auditor has used information obtained during the course of duties for personal gain?	N/A	There have been no known instances where an internal auditor has used information for personal gain	-	-	-
If there has been any real or apparent impairment of independence or objectivity, has this been disclosed to appropriate parties (depending on the nature of the impairment and the relationship between the CAE and senior management/the board as set out in the internal audit charter)?	N/A	There have been no known instances of real or apparent impairment of independence or objectivity.	-	-	-
If there have been any assurance engagements in areas over which the CAE also has operational responsibility, have these engagements been overseen by someone outside of the internal audit activity?	N/A	The Chief Internal Auditor has no operational responsibilities outside of the internal audit function.	-	-	-

Standard	Compliance	Comment	Action	Responsible Officer	Implementation Date
4.1 - Managing the Internal Audit Activity					
Where an external internal audit service provider acts as the internal audit activity, does that provider ensure that the organisation is aware that the responsibility for maintaining and effective internal audit activity remains with the organisation?	N/A	Internal audit is not provided by an external service provider.	-	-	-
4.5 - Communicating Results					
Where any non-conformance with the PSIAS has impacted on a specific engagement, do the communication of the results disclose the following:					
a) The principle or rule of conduct of the <i>Code of Ethics</i> or <i>Standard(s)</i> with which full conformance was not achieved?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
b) The reason(s) for non-conformance?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-
c) The impact of non-conformance on the engagement and the engagement results?	N/A	Occasion has not arisen whereby non-conformance with PSIAS has impacted on an engagement.	-	-	-

Opportunities for Improvement - Section briefing– 3 March 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>Communication</p> <p>With additional organisations joining the Partnership, the transient nature of audit staff, flexible working options and the fluidity of planning to meet the needs of the client, it is considered that current channels of communication should be enhanced to compliment changing working practices.</p>	<p>Head of Southern Internal Audit Partnership to attend ASMT monthly to capture key messages from the team</p> <p>A monthly email to be circulated to all staff with the key messages (corporate and local)</p> <p>To ensure all relevant staff are notified with any plan changes (ASMT to be copied in on email(s) due to potential impact on other workloads).</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Head of Southern Internal Audit Partnership</p> <p>All of ASMT</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p>
<p>MKI</p> <p>Limitations within MKI prior to the recent upgrade have required a number of workarounds questioning the effectiveness and efficiency of the system. Additionally attaining relevant management information is a cumbersome and timely process.</p>	<p>MKI are currently developing a progress report that will replace the progress control sheet. This will make the monitoring of audits for all staff much easier.</p> <p>Looking to change the hosting of MKI back to the vendor rather than internal. This will resolve the live mobile issues.</p> <p>Once the progress report has been developed, we will ask MKI to develop automated audit reports/outlines and facility to track management actions.</p>	<p>LE / MKI</p> <p>LE / MKI</p> <p>LE / MKI</p>	<p>Complete</p> <p>Complete</p> <p>AO's now automated and MKI being utilised to track management action. Automated audit reports currently</p>

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Staff to be reminded on the level of scanning needed. We don't need every single document scanned.</p> <p>Should the scanner in room 241 be out of action, an alternative device is available in room 321.</p>	All staff	<p>under review</p> <p>Complete</p>
<p>Travel</p> <p>Clarity required with regard travel entitlements in light of the expansion of the Partnership</p>	To introduce a travel policy for the partnership	Head of Southern Internal Audit Partnership	Outstanding – to be actioned by December 2015
<p>Manager review</p> <p>Quality standards require manager and senior manager sign off of all reports, with Limited and No assurance reports cleared by the Head of Partnership. Does this remain practicable in light of the extension of the partnership.</p>	Quality standards will not be compromised. To review the current reporting protocol and timescales for practicalities.	Senior Management Team	Complete
<p>Planning</p> <ul style="list-style-type: none"> o Need more scope / background reasons for inclusion in the plan o Need more involvement of staff in the annual planning process 	This has been rectified in the 2014/15 plans.	Audit Services Management Team / Senior Management Team	Complete
<p>Allocation of audit</p> <p>Is the allocation of audit assignments effective. Are we</p>	Matrix working is in place across the partnership to ensure that we maintain flexibility to		

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
<p>maximising individuals knowledge and experience.</p>	<p>apportion relevant experience at all times.</p> <p>Not looking to develop “experts” with the notable exceptions of IT, Fraud and Procurement / Contract Management.</p> <p>Any training needs to be raised with relevant managers</p>	<p>All staff</p>	<p>on-going</p>
<p>IT –connectivity at one satellite site remains restrictive.</p>	<p>Head of Southern Internal Audit Partnership to liaise with relevant S151 to effect a long term solution.</p>	<p>Head of Southern Internal Audit Partnership</p>	<p>Complete</p>
<p>Auditees</p> <p>There are increasing incidences where the duration of audit assignments are prolonged due to client availability both in terms of fieldwork and report clearance. Significant delays in issuing reports can impact on relevance and reflect poorly on the audit service.</p>	<p>Head of Southern Internal Audit Partnership to raise with CMT’s as a general discussion about the impact of delays etc.</p> <p>Formalise an escalation policy.</p> <p>Need to ensure any delays are escalated to the relevant Audit Manager / SMT member promptly.</p> <p>Report template to include timeline</p>	<p>Head of Southern Internal Audit Partnership</p> <p>Senior Management Team</p> <p>All staff / ASMT</p> <p>To align with automated reports from MKI</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Complete</p>
<p>Information extraction</p> <p>The addition of new partners coupled with the matrix management approach introduces challenges in maintaining a working knowledge of all applications and systems across the partnership.</p>	<p>Look at system training needs across the section and determine who needs what training. (in- house or provided elsewhere.)</p>	<p>ASMT</p>	<p>Complete</p>

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
	<p>Identify staff with specific knowledge as contacts for key systems to provide internal training</p> <p>For sites with restricted access to systems consider including a more specific list of required reports etc. in the AO</p>	<p>Head of Southern Internal Audit Partnership</p> <p>AMs</p>	<p>Outstanding - A knowledge database is being created detailing qualifications and experience to better effect assignment of audits</p> <p>Outstanding – require a greater emphasis on requesting desired information / reports as part of the AO</p>
<p>Working in silos</p> <p>Look for opportunities for team building – socials, group work etc.</p>	<p>To ensure section briefings include more opportunities for group work.</p> <p>To arrange regular social events outside of work.</p>	<p>Deputy Head of Southern Internal Audit Partnership</p> <p>NJ</p>	<p>Complete</p> <p>on-going</p>

Opportunities for Improvement – Staff Away Day (Celebrating Success) - Branding – September 2014

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire a SIAP email addresses to replace the existing hants.gov.uk and prevent confusion / ambiguity with partners and sold service clients regarding who we are.	To seek advice from IT to determine if a SIAP email address is a possibility and if so the costs, impacts etc. of pursuing such an option.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015
To explore the potential of branded stationery / lanyards to present a sense of professionalism and identity when out on site.	Seek the cost of branded stationery and lanyards. Considered more appropriate and cost effective to acquire folders rather than branded working papers / pens etc.	Head of Southern Internal Audit Partnership	Complete
To provide a consistency in answering the telephone so partners and sold service clients are clear who they are speaking to and to reinforce the partnership brand.	All to answer to phone... <i>'good morning southern internal audit partnership x speaking'</i>	Head of Southern Internal Audit Partnership	Complete
Staff to receive regular updates highlighting partnership issues	To retain quarterly staff briefings supplemented by the Head of Southern Internal Audit Partnership issuing newsletters in between briefings should significant issues arise.	Head of Southern Internal Audit Partnership	Complete
For staff to hold and issue as necessary business cards to prospective clients or for a point of contact for existing partners / clients	The cost of producing business cards for all members of the team was considered disproportionate to the potential benefits to be gained. We will however, look to consider producing an in-house template for local printing and issue should the need arise.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015

Opportunities for Improvement – Internal Audit Surveys – March 2015

Improvement opportunities:	Suggested actions:	Responsible Officer	Implementation
To acquire and enhance to use of CAATs across the partnership.	Whilst Excel spread sheets are used extensively across the partnership for the purposes of review, analysis, sampling, filtering, producing formula for test checking etc. there are no other specific CAAT's used. The successful bid for Central Government grant funding has enabled us to explore CAATs further and we will be procuring a data analytical software package to support the delivery of outcomes of that initiative and also to benefit the wider partnership through mainstream audit use. It is intended that we will acquire the 'Idea' software	Head of Southern Internal Audit Partnership	Outstanding to be actioned by September 2015
To enhance our cultural awareness of two of our existing key stakeholder partners	For the Strategic Lead for the key stakeholder partners to attend future cultural development workshops	Group Audit Manager	Complete
To better disseminate examples of good practice when undertaking audit assignments from experiences witnessed across the wider partnership.	To incorporate an 'added value' section to the standard report template to prompt managers for the relevant portfolios to think of like services provided across the wider partnership cohort and highlight any examples of exemplar practice that may benefit the audit client.	Head of Southern Internal Audit Partnership	Outstanding to be actioned by December 2015